



Government of Kiribati

Mid-Year Fiscal Update Report

30th June 2023

"Building Back Better and Stronger"

National Economic Planning Office
Ministry of Finance & Economic Development

1.0 INTRODUCTION

1.1 This report reviews government's fiscal performance for the first six months of this financial year, covering the period 1st January to 30th June 2023. The report discusses the performance of government revenues and expenditures and highlights the net budget balance for the reporting period. It also outlines several key risks to public finances and proposes measures to safeguard the stability of the government budget over the remainder of 2023.

1.2 The report is divided into five main parts:

- (i) Part I of the report highlights the government's net financial position for the period ending 30th June 2023. This includes reporting the six-monthly results for government revenues, expenditures and the net budget balance;
- (ii) Part II of the report highlights the outturns for key categories of government revenues, such as tax revenues, non-tax revenues and budget support from development partners;
- (iii) Part III discusses government's expenditure performance, including the results for main expenditure categories in the budget such as departmental expenditures, other government expenditures, debt servicing costs and LCDF contributions;
- (iv) Part IV of the report discusses the net financial position; and
- (v) Part V provides an assessment of the government's overall fiscal performance, examining the rationales for key revenue and expenditure trends, and proposed strategies to prudently manage public finances within the fiscal boundaries of the 2023 Budget.

1.3 The report provides a comparison of the fiscal performance from January to June 2023 with the corresponding period in 2022. It also compares the June 2023 fiscal performance against the overall budget for 2023 to gauge the budget consumption rate and the achievement of overall revenue targets.

1.4 The data for this report is sourced from the government's financial management system and other official sources, including the 2023 budget documents. The figures for June 2022, as presented in the report, have been reconciled based on audited financial data. However, the figures reported for June 2023 are currently provisional. These will be finalized once government completes the full reconciliation of its annual accounts.

2.0 OVERVIEW

2.1 The status of government's finances for the period January to June 2023 is shown in **Table 1**. The table highlights the outcome for government revenues and expenditures up to June 2023, and compares them with the fiscal outcome for June 2022 and the overall budget for 2023.

Table 1: Government's Fiscal Position as of 30th June 2023

Summary	June 2023 (Provisional)	June 2022 (Actual)	Difference	% change	Total 2023 Budget	Performance Rate
Revenue	147,082,768	125,579,353	30,131,366	24.0%	319,077,533	48.8%
Expenditure	168,782,527	25,787,859	42,994,668	34.2%	318,068,543	53.1%
Budget (Deficit)/Surplus	(21,699,759)	(208,504)				
<i>Budget (Deficit)/Surplus % of GDP</i>	(5.5%)	(0.1%)				
Nominal GDP	394,471,250	394,471,250				

*Red Font: Fiscal deficit recorded for the reporting period

2.2 As depicted in **Table 1**, government revenues stood at \$147.1 million at the end of June 2023, while expenditures amounted to \$168.8 million. Given that government spent more than its revenue earnings in the first six months, a fiscal deficit of \$21.7 million was recorded at the end of June 2023, the equivalent to about 3.3 percent of GDP. Comparatively, the budget result for the same period last year was a marginal deficit of \$0.2 million.

2.3 Compared to the budget, revenue collections rose to 48.8 percent of the annual revenue target, while expenditures reached 53.1 percent of the total budget. Both revenues and expenditures also increased significantly compared to June last year with revenues rising by 24.0 percent, and expenditures increasing by 34.2 percent. This year's robust fiscal performance is underpinned mainly by a return to normalcy in government's operations, which was restrained throughout most of last year by COVID restrictions.

3.0 GOVERNMENT REVENUE

3.1 **Table 2** below highlights the performance of government revenues for the period January to June 2023. This includes the performance of both tax and non-tax revenues as well as general budget support contributions from development partners.

Table 2: Performance of Government Revenue up to June 2023

Revenue Component	June 2023 (Provisional)	June 2022 (Actual)	Difference	% change	2023 Budget Revenue	Proportion of Budget
Tax Revenue	22,378,263	28,089,075	-5,710,812	-20.3%	79,443,878	28.2%
Personal income tax	7,787,394	5,964,303	1,823,091	30.6%	14,659,691	53.1%
Company tax	5,989,885	5,075,537	914,348	18.0%	16,259,915	36.8%
Excise Tax	793,195	4,263,034	-3,469,839	-81.4%	13,016,967	6.1%
VAT	7,807,789	12,786,201	-4,978,412	-38.9%	35,507,306	22.0%
Non-Tax Revenue	124,704,505	90,520,129	34,184,376	37.8%	215,524,630	57.9%
Dividends	199,781	125,010.86	74,770	59.8%	4,905,480	4.1%
Interest Income	12,311	5	12,306	246120.0%	1,500,000	0.8%
RERF Dividends	0	0	0	#DIV/0!	0	#DIV/0!
Fishing License Revenue	103,084,570	87,897,609	15,186,961	17.3%	191,432,013	53.8%
Fish transshipment fees	877,015	348,358	528,657	151.8%	8,091,428	10.8%
Other Fishing Revenue	678,533	68,607	609,926	889.0%	476,559	142.4%
Other Ministries' Revenue	19,852,295	2,080,539	17,771,756	854.2%	9,119,150	217.7%
Budget Support	0	6,970,149	-6,970,149	-100.0%	24,109,025	0.0%
Budget support	0	6,970,149	-6,970,149	-100.0%	24,109,025	0.0%
Total Revenue	147,082,768	125,579,353	21,503,415	17.1%	319,077,533	46.1%

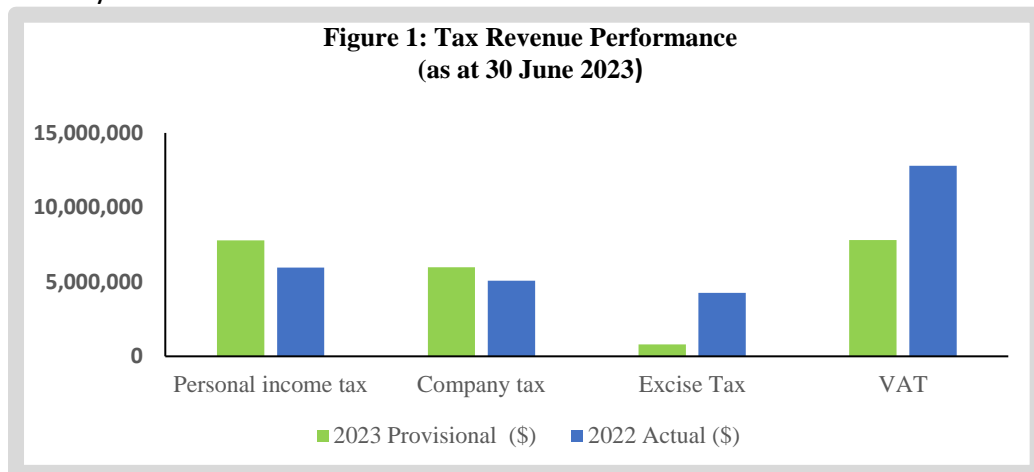
*Red Font: Revenue outturn for June 2023 is lower than the revenue outturn for June 2022

Tax Revenue

3.2 The main components of government taxes are Value Added Taxes (VAT), personal income taxes, company taxes and excise taxes.

3.3 Tax collections increased to about \$22.4 million in the first six months. When compared to collections in the same period last year; this depicted a decrease as in 2022 tax collections rose to \$28.1 million. The below par performance is due to relatively lower collections recorded this year for VAT and Excise Taxes. However, relatively buoyant collections were registered for personal income taxes and company taxes, which offset some of the losses from VAT and Excise Tax revenues. A summary of the performance of each tax category is discussed in the ensuing paragraphs:

3.4 **Figure 1** highlights the performance of government's main tax categories in the period January to June 2023.



Non-Tax Revenue

3.5 Non-tax revenue constitutes a wide range of domestic revenue sources other than taxes or budget support from donors. It includes proceeds from fishing licenses – government's largest revenue source – and incomes from other sources like interest, dividends, RERF dividends, and proceeds from various fees, fines and charges levied by government ministries. The ensuing paragraphs outline the performance of these non-tax revenue items.

Fishing License Revenue

3.6 Revenues generated from fishing licenses bounced back in the last six months with a buoyant outturn of \$103.1 million. Collections in the same period last year stood at around \$87.9 million, or \$15.2 million lower than this year's outturn. The upbeat performance for fishing license revenues is attributed to a resurgence in global market demand as well as supportive weather patterns, which has been driving demand for fishing license days amongst vessel operators.

3.7 Compared to the annual forecast, fishing license proceeds have reached approximately 53.9 percent of this year's annual revenue target. This performance is encouraging as it indicates that collections are on track to achieving the annual forecast of \$191.4 million. Current trends also suggest that that collections might surpass this year's revenue target and reach around the \$200 million mark. This should bring collections closer to the pre-pandemic peak of \$210 million recorded in 2019.

Fish Transshipment Fees

3.8 Government collected about \$0.9 million from transshipment fees in the first six months, reflecting an increase of about \$0.5 million compared to June last year. Transshipment revenues are expected to rise sharply in the coming six months as this period marks the time when most vessels usually return to shore to offload their seasonal catch. Last year, government collected about \$9.6 million during the months of July to December. The same trend is expected this year, with revenues expected to rise to \$8.1 million in the coming six months.

Other Fishing Revenues

3.9 Proceeds from 'other fishing revenues' increased to approximately \$0.6 million in the review period. Bulk of the increase in these proceeds came from deposits made to the Fisheries Observer Fund which accumulated about \$0.5 million. Further proceeds were also generated from the sale of local fishing licenses, fish posters and the hiring of fishing boats and equipment.

Interest Income

3.10 Interest income is basically the interest that government earns from its deposits in financial institutions. The first half of this year saw interest earnings rise to just under \$0.01 million or about 0.8 percent of total earnings expected for the year. Government is expecting its interest-bearing accounts to accrue significant incomes over the coming six months – generating about \$1.5 million as projected in the government budget.

Dividends

3.11 'Dividends' refer to the returns that government earns from its shareholding interests in State Owned Enterprises (SOEs). During the first six months, government received dividend incomes of just around \$0.1 million; representing 4.1 percent of the total returns expected this year.

3.12 Majority of the returns are expected later this year after SOEs close their accounts in December; and declare final profits and dividends for the financial year 2023. This year's dividend incomes are projected to reach \$4.9 million, emanating mainly from six state entities, namely: Air Kiribati Limited; Kiribati National Shipping Limited; Kiribati Housing Corporation; Kiribati Oil Company Limited, Kiribati Green Energy Solutions and the Public Utilities Board.

Revenue Equalization Reserve Fund

- 3.13 As highlighted in the 2023 national budget, government will not be making any withdrawals from the RERF this financial year; because the Fund had performed poorly last year and failed meet the threshold for withdrawal under the RERF Withdrawal Policy. There were also no withdrawals made in 2022, despite the fact that the Fund had met the criteria for withdrawal and was anticipating a drawdown of around \$23.0 million.

Other Ministry Revenues

- 3.14 'Other Ministry revenues' comprise mainly of proceeds from various fees, fines and charges levied by government ministries. These include receipts from court levies, immigration fees and other statutory charges.
- 3.15 Receipts from ministry revenues rose to \$19.9 million at the end of June, reflecting a substantial increase of \$17.8 million compared to last year's collections. The increase emanated mostly from sundry revenues which rose to about \$10.1 million in the reporting period¹.

Budget Support

- 3.16 Several development partners have pledged to provide budget support contributions of \$24.1 million in the 2023 budget. The release of these funds are conditional on government meeting certain policy reform commitments through the Economic Reform Taskforce; which includes, amongst others, the publication of several financial management reports under the Fiscal Reporting Policy. Government is making progress on these commitments and plans to deliver them in the next few months.

4.0 GOVERNMENT EXPENDITURE

- 4.1 The main categories of government's budgetary expenditures are:
- (i) Departmental Expenditures;
 - (ii) Other Government Expenditures;
 - (iii) Debt Servicing; and
 - (iv) Local Contributions to the Development Fund (LCDF), which constitute government funding for development projects and programs.
- 4.2 **Table 3** summarizes the status of the above expenditure categories for the reporting period January to June 2023. Further discussions on the performance of these expenditure categories are provided in the ensuing paragraphs.

Table 3: Cumulative Government Expenditure up to 30th June 2023

¹ Sundry revenue entries are still being reconciled in the FMIS system.

Expenditure Category	June 2023 (Provisional)	June 2022 (Actual)	Difference	% change	2023 Budget Expenditure	Proportion of Budget
Departmental expenditure	75,574,096	71,824,833	3,749,263	5.2%	144,112,644	52.4%
<i>Personal Emoluments</i>	54,943,920	50,067,232	4,876,688	9.7%	104,856,560	52.4%
<i>Operational Cost</i>	20,630,176	21,757,601	-1,127,425	-5.2%	39,256,084	52.6%
Other government expenditure	38,054,491	24,439,584	13,614,907	55.7%	63,563,782	59.9%
<i>Subsidies</i>	14,556,197	9,058,889	5,497,308	60.7%	24,512,146	59.4%
<i>Grants</i>	14,032,025	8,443,180	5,588,845	66.2%	27,463,749	51.1%
<i>Contributions</i>	1,607,006	466,821	1,140,185	244.2%	2,000,000	80.4%
<i>Other Commitments</i>	7,859,263	6,470,694	1,388,569	21.5%	9,587,887	82.0%
Debt servicing	2,070,544	1,694,848	375,696	22.2%	4,055,383	51.1%
Local Contribution to Development Fund	53,083,396	27,828,593	25,254,803	90.8%	106,336,733	49.9%
<i>Copra Subsidy</i>	19,404,180	15,156,440	4,247,740	28.0%	28,000,000	69.3%
<i>Unemployment Benefit</i>	12,422,861	10,022,641	2,400,220	23.9%	30,100,000	41.3%
<i>Projects and grants</i>	21,256,355	2,649,512	18,606,843	702.3%	48,236,733	44.1%
Total Expenditure	168,782,527	125,787,859	42,994,668	34.2%	318,068,543	53.1%

*Red Font: Expenditures for June 2023 have exceeded expenditures for June 2022.

Departmental Expenditure

- 4.3 Departmental expenditures include spending on personnel emoluments and other operational costs.
- 4.4 *Personnel Emolument*: Government spent around \$54.9 million on personnel emoluments in the first half of 2023, exceeding last year's expenditure by about \$4.9 million. The increase in personnel spending emanated from higher spending on leave grants, salaries, allowances and temporary allowances.
- 4.5 *Operational Cost*: Government spent approximately \$20.6 million on operational expenses during the first six months. This expenditure was slightly lower than spending in the same period last year, which accumulated to around \$21.8 million. Notably, there were reductions in expenses for office equipment, internal travel, communication, and water and sewerage services; which contributed to this year's lower operational costs.

Other Government Expenditure

- 4.6 This category of government's expenditure has four main sub-categories. They are subsidies, grants, contributions and other commitments. The ensuing paragraphs provide an update on the expenditures of these sub-categories.

Subsidies

4.7 Subsidies are typically financial transfers provided by the government to private entities to subsidize the provision of various goods and services that are essential to the achievement of government's policy goals. Some important subsidies in the government budget include subsidies for freight and air services, subsidies for housing, subsidies for education services, and subsidies for state-owned entities (Community Service Obligations).

4.8 By the end of June 2023, government had disbursed about \$14.6 million in subsidies. This disbursement covered the following payments:

- Community Service Obligations: \$6.6 million;
- Subsidy for School Fees: \$2.7 million;
- Support for Secondary Mission Schools: \$2.1 million;
- Support for Pre-Schools: \$1.0 million;
- School Stationery for Primary Schools: \$0.7 million;
- Freight Subsidy for Local Produce: \$0.2 million;
- Kiribati Housing Subsidy: \$0.3 million;
- Student Allowance for MTC, KIT and SONH students: \$0.2 million;
- Students Allowance for KTC Students: \$0.2 million;
- In-Country Tertiary Support \$0.2 million; and
- School Fees for Special Needs Children: \$0.1 million

4.9 Subsidy payments in June 2022 accumulated to about \$9.1 million, which is roughly two-thirds of this year's disbursement. The COVID lock down in 2022 had impacted the timely release of most subsidy payments. Other general government payments also experienced similar delays last year.

Grants

4.10 Government's grant allocation covers grants made to local island councils, urban councils and several voluntary organizations. It also covers funding made available for the Senior Citizens Benefit Scheme and the Disability Support Scheme. The Senior Citizens Benefit Scheme alone accounts for almost 90 percent of the total grant provision.

4.11 Government paid out total grants of \$14.0 million in the first two quarters of 2023. Close to 80 percent of the grant payment was released to the Senior Citizens Benefit Scheme amounting to \$10.9 million. The balance or the remaining 20 percent covered the following payments:

- Support Grants: \$1.7 million;
- Disability Support Allowances: \$1.4 million;
- Local Councils: \$0.06 million; and
- Voluntary Organizations: \$0.009 million.

4.12 The total grant amount released in June 2022 was around \$8.4 million. Similar to this year's grant, the majority of last year's grant also comprised payments to the Senior Citizens Benefit Scheme.

Contributions

4.13 Contributions include the payment of annual subscriptions for government's membership in international and regional organizations, such as the World Bank, the IMF and the Asian Development Bank. Total contributions reached \$1.6 million in the reporting period. Contributions made last year were much lower amounting to \$0.5 million.

Other Commitments

4.14 'Other commitments' refer to spending on specific commitments that government has promised to meet within the current financial year. These commitments may arise from legal obligations or from promises made to stakeholders in the local community. This year's commitment budget includes payments for land rent dues, as well as payments for essential services such as search and rescue services, and ferrying services to the remote outer islands. Budgetary provisions for hosting national elections and conducting the national census are also allocated under the commitment budget.

4.15 Government's commitment expenditures rose to around \$7.9 million by mid-2023, exceeding the amount expended last year by 21.5 percent. More than 90 percent of the commitment spending comprised payments for settling land rent claims, which increased to about \$7.5 million in the reporting period. A further \$0.4 million was spent on search and rescue services; while about \$0.07 million was released to support preparatory works for next year's general elections.

Debt Servicing

4.16 Debt servicing refers to the payment of interest, principal and other financing charges on public debt. Cumulative debt payments up to June 2023 stood at \$2.1 million, higher than last year's payment of \$1.7 million. A slight appreciation in the foreign exchange rate contributed to this year's higher debt payment.

Local Contribution to the Development Fund (LCDF)

4.17 The LCDF is government's main facility for funding development projects and programs in Kiribati. Contributions to the LCDF are grouped into three sub-categories:

- (i) Projects and Grants;
- (ii) Copra Price Subsidies; and
- (iii) Unemployment Benefits.

Projects and Grants

4.18 This provision covers funding for a broad range of development projects and grants, including capital projects, special sector-based programs and various development grants.

4.19 During the months of January to June 2023, a total sum of \$53.1 million was transferred to the LCDF facility. This covered funding for the following projects and grants:

- Overseas Tertiary Scholarships (\$6.9 million);
- Leave Grants for Non-ER Posts (\$4.9 million);
- Overseas Medical Referrals (\$2.9 million).
- Local Medical Referrals (\$0.7 million)
- Infrastructure Maintenance Programme (\$2.1 million);
- Financial Management Information System (\$1.0 million); and
- Social Stability Fund (\$0.6 million).

Copra Price Subsidy

4.20 Government distributed about \$19.4 million under the copra price scheme in the first six months. This accounted to almost 70 percent of the total budget for copra subsidies. Most of the subsidy claims came from the islands of Nikunau, Teraina, Beru, Abemam and Tab North. Last year's copra subsidy payment was \$15.2 million. A summary of copra subsidy payments made across the different islands is shown in **Annex 1**.

Unemployment Benefit Scheme

4.21 In the first half of the year, government paid out around \$12.4 million under the unemployment benefit scheme. The payment benefited a total of 52,000 recipients or close to 50 percent of the national population. More than half of the recipients were women (26,645), who received incomes of about \$6.0 million in total. The total disbursement in June 2022 was about \$10.0 million; or \$2.4 million below the amount released this year.

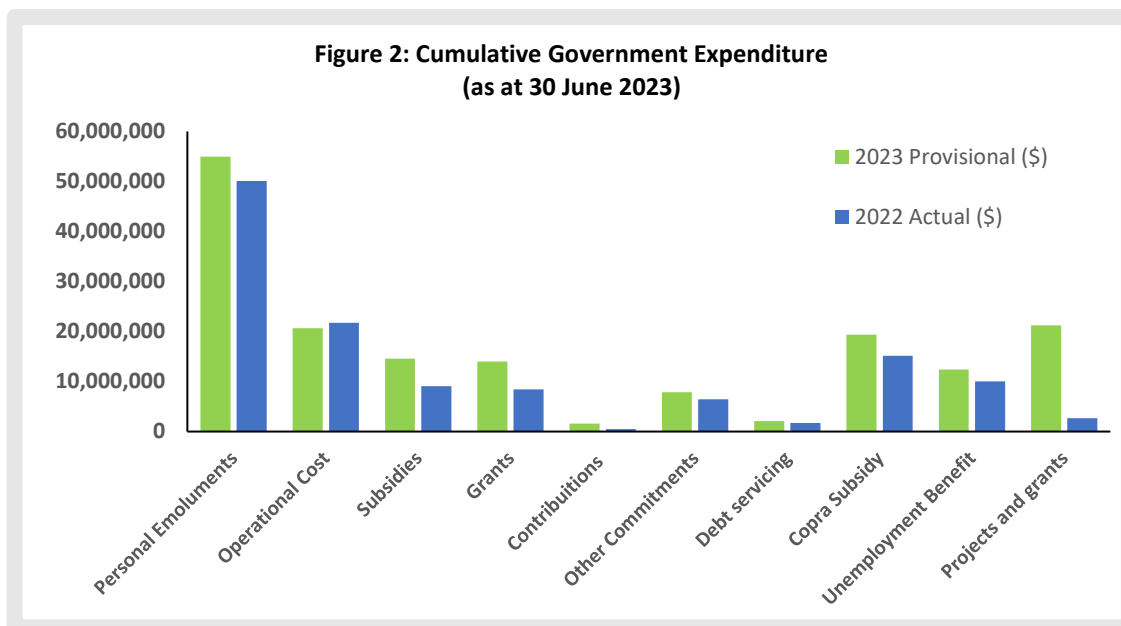
4.22 A summary of the distribution of unemployment benefits across the different islands in Kiribati is shown in **Annex 2**. Most of the unemployment benefits paid so far have been received by the residents of Tarawa (36%).

Summary Expenditures

4.23 **Figure 2** highlights the status of government's expenditure categories for the period ending 30th June 2023. As depicted in the graph, personnel emoluments make up the largest segment of government's expenditures followed by operational cost, other commitments², LCDF expenditures³ and debt servicing costs.

² Subsidies, grants, contributions and other commitments.

³ Copra Subsidies, unemployment benefits, and projects and grants.



5.0 NET FINANCIAL POSITION

5.1 The net financial position (also known as the net deficit or surplus) is a key indicator of government’s financial performance. A net deficit arises when government’s expenditure exceeds government revenue and a net surplus occurs when government revenue surpasses government expenditure.

5.2 **At the closure of the June 2023 accounts, government posted a deficit of approximately \$13.1 million or 3.3 percent of GDP.** The deficit outcome is attributed to expenditures increasing more rapidly this year compared to government revenues. Total government revenues up to June rose to about 48.8 percent of the annual revenue target, while expenditures accumulated to 53.1 percent of the total budget.

6.0 CONCLUSION

6.1 Government revenues performed relatively well in the review period, reaching close to 50 percent of the annual forecast for 2023. Both taxes and fishing revenues have recovered from the slump in the last 2 years, driving revenue collections in the first six months. Further budget contributions from development partners should also support revenue growth in the coming months.

6.2 Expenditures have remained relatively stable over the last six months, increasing in line with budget expectations. Even though all categories of expenditures have performed above their respective levels in 2022 (except for operational expenses), expenditures overall have reached around the halfway mark of this year’s budget. This is broadly in line with historical trends and reflects efforts to maintain spending within budgetary limits.

6.3 However, given that government has set a surplus target of \$1.0 million for the 2023 Budget, further fiscal restraint will be needed in the next six months to reduce the

current budget balance and achieve the desired surplus target. We expect expenditures to pick up in the second half of 2023, as ministries proceed with the implementation of key budget projects and programs. Government will be closely monitoring these expenditures to detect any further divergence from revenue growth. If needed, government will be ready to impose limits on spending in order to control the growth of the deficit and ensure that it is kept at sustainable levels. This can include placing special restrictions on salaries and allowances, as well as other controllable expenditures.

7.0 **RECOMMENDATION**

7.1 Cabinet is invited to:

- (i) Note the performance of government revenues and expenditures as discussed in **Sections 3.0** and **4.0**;
- (ii) Note the final outcome of government's fiscal performance as of 30th June 2023, as outlined in **Section 5.0**; and
- (iii) Note and discuss the overall assessment on government's fiscal performance as outlined in **Section 6.0**.

ANNEX 1

COPRA PRICE SUBSIDY SCHEME – PAYMENT DISTRIBUTION

Copra Subsidy Payments January to June 2022	
Island	Amount
Abaiang	\$ 860,000.00
Abemama	\$ 1,200,000.00
Aranuka	\$ 540,000.00
Arorae	\$ 270,000.00
Beru	\$ 1,050,000.00
Butaritari	\$ 790,000.00
Christmas	\$ 750,000.00
Kuria	\$ 550,000.00
Maiana	\$ 400,000.00
Makin	\$ 690,000.00
Marakei	\$ 720,000.00
Nikunau	\$ 650,000.00
Nonouti	\$ 600,000.00
NorthTarawa	\$ 720,000.00
Onotoa	\$ 430,000.00
TabNorth	\$ 950,000.00
TabSouth	\$ 480,000.00
Tabuaeran	\$ 1,090,000.00
Tamana	\$ 270,000.00
Teraina	\$ 1,913,000.00
South Tarawa	\$ 233,440.00
Total	\$ 15,156,440.00

Copra Subsidy Payments January to June 2023	
Island	Amount
Abaiang	\$ 758,000.00
Abemama	\$ 1,986,000.00
Aranuka	\$ 763,000.00
Arorae	\$ 413,000.00
Beru	\$ 1,845,000.00
Butaritari	\$ 642,000.00
Christmas	\$ 756,000.00
Kuria	\$ 809,000.00
Maiana	\$ 591,000.00
Makin	\$ 537,000.00
Marakei	\$ 686,000.00
Nikunau	\$ 1,872,000.00
Nonouti	\$ 1,260,000.00
NorthTarawa	\$ 676,000.00
Onotoa	\$ 479,000.00
TabNorth	\$ 2,026,000.00
TabSouth	\$ 684,000.00
Tabuaeran	\$ 1,013,000.00
Tamana	\$ 488,000.00
Teraina	\$ 978,104.00
SouthTarawa	\$ 142,076.00
Total	\$ 19,404,180.00

ANNEX 2

UNEMPLOYMENT BENEFIT SCHEME - PAYMENT DISTRIBUTION

Island	Female	Male	Unverified	Total
Abaiang	1317	1376	22	2,715
Abemama	861	849	4	1,714
Aranuka	291	287	4	582
Arorae	257	264	2	523
Banaba	84	70	1	155
Beru	551	594	10	1,155
BTC	3921	3416	20	7,357
Butaritari	817	809	21	1,647
ETC	1451	1401	9	2,861
Kiritimati	1445	1417	94	2,956
Kuria	300	295	1	596
Maiana	573	563	31	1,167
Makin	431	455	2	888
Marakei	658	659	10	1,327
Nikunau	499	540	4	1,043
Nonouti	653	644	3	1,300
Onotoa	393	408	3	804
Tab-North	787	828	8	1,623
Tab-South	295	365	5	665
Tabuaeran	453	491	4	948
Tamana	268	231	1	500
Teraina	377	437	1	815
TUC	9963	8883	35	18,881
Total	26,645	25,282	295	52,222

